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Presentation to the Tax Reform and Relief Legislative Tax Force

Senator Jim Hendren, Chair

Representative Lane Jean, Chair





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Business Incentive Programs of the Arkansas Economic Development Commission

May 24, 2018

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- 
- AEDC Overview
 - Economic Development Environment
 - Incentive Categories
 - AEDC Business Incentive Programs
 - Questions and Discussion

Presentation
Overview





AEDC OVERVIEW



MISSION STATEMENT

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To create economic opportunity by attracting higher paying jobs, expanding and diversifying our state and local economies, increasing incomes and investment, and generating positive growth throughout Arkansas.

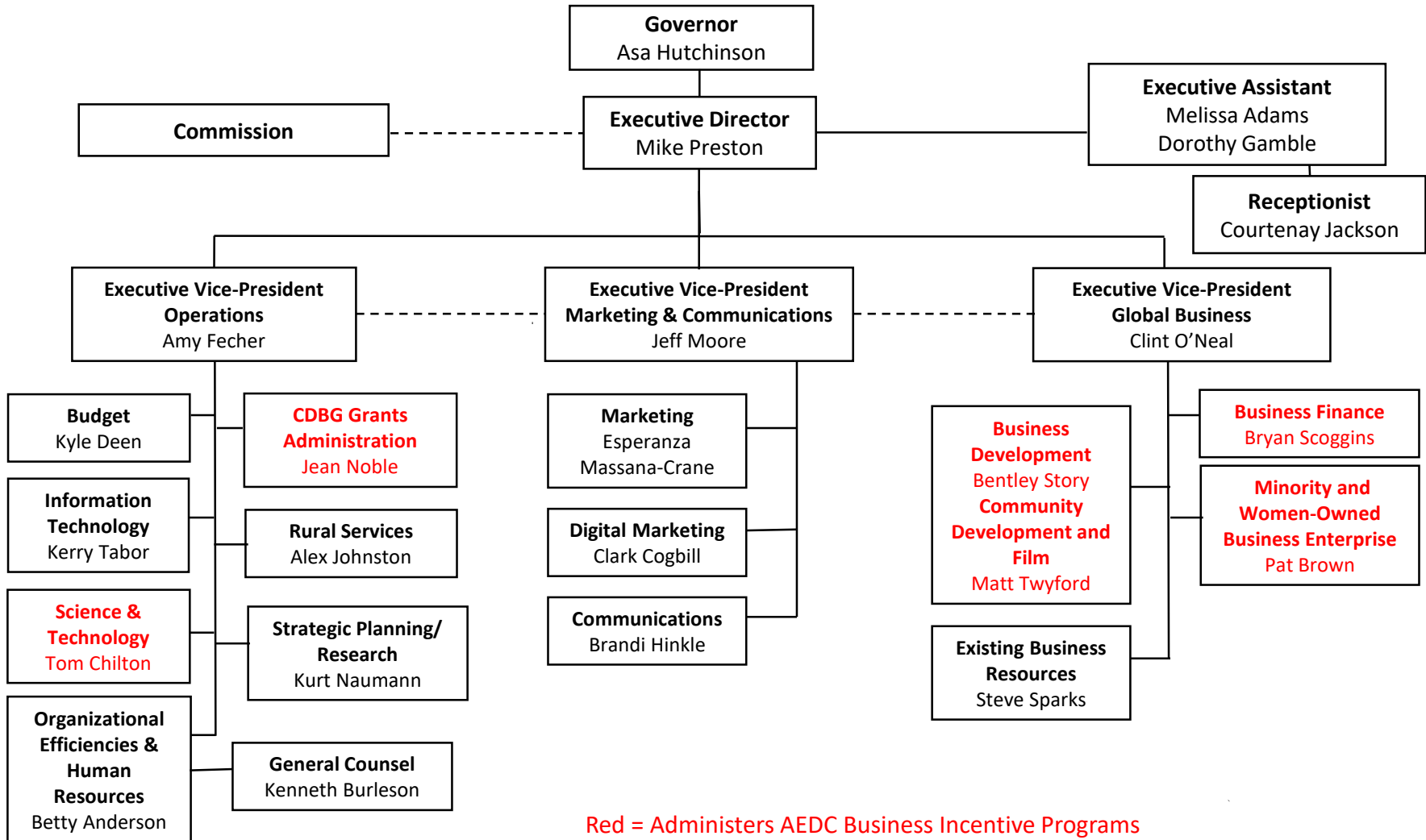


FY 2018 – FY 2019 Goals

- 1 Stimulate Innovation Entrepreneurship through a Comprehensive Business Formation Strategy**
- 2 Enhance Arkansas's Economic Competitiveness through development of Community Product**
- 3 Direct Statewide Workforce Partners in the development of a viable Workforce for AEDC Business Targets**
- 4 Assist Businesses in Creating High-Wage Jobs**
- 5 Tell the Arkansas Story through an effective Marketing & Communications Strategy**
- 6 Increase Productivity through Efficient and Effective Use of Human Capital and Financial Resources**



ORGANIZATION



Act 230 of 2018

- 108 Authorized Positions
- \$16,719,275 in State Operations
- Appropriations for Multiple AEDC Business Incentives
 - QACF
 - Amendment 82
 - Industry Training Program
 - SBIR Matching Grant Program
 - Arkansas Business and Technology Accelerator Grant Program
 - Minority-Owned and Women-Owned Business Loan Guarantees
 - Technology Development Program
 - Seed Capital Grant Program
 - Create Rebate (Act 220 of 2018 re-appropriation of Act 468 of 2017)

Leveraged Federal Funds

- CDBG
- EPSCoR
- Arkansas Manufacturing Solutions

Foreign Office Contracts

- China
- Japan
- Germany

Additional Funding Initiatives to Support Business Development

- Arkansas Research Alliance
- Innovate Arkansas





ECONOMIC DEVELOPMENT ENVIRONMENT

- AEDC's competition for projects in the 1950s-1960s was with other states, particularly southern states, with cheap labor and abundant natural resources.
- In the 1970s and 1980s, AEDC's competition expanded throughout North America (non-southern states and Mexico) and Europe.
- As technology began to dominate business and markets globalized, competition became worldwide in the 1990s.
- The Internet further impacted business models as businesses reshaped product distribution and delivery systems to meet consumer demand.

- Most businesses today can locate almost anywhere. Therefore, corporate location and relocation choices are complex and seek to maximize competitive advantages.
- Companies have a fiduciary interest to ownership, stockholders, boards, employees, and customers to make the best deal possible.
- Arkansas is competing on an uneven playing field. Taxes, workforce cost and skills, shovel-ready sites, utility costs and access, transportation assets, and regulatory environments differ significantly among states.

- States' incentive programs have evolved to help overcome some of these competitive disadvantages (i.e., grants for infrastructure improvements, tax credits to ameliorate high taxes, training programs to prepare workforce, etc.). Past studies commissioned by the legislature (Fluor reports) show the complexity of the decision-making process.
- Until Arkansas levels the playing field, incentives are necessary to remain competitive in helping to create, attract, retain, and expand jobs.
- Incentives cannot make a bad deal good, but are critical factors in the overall decision-making process.



INCENTIVE CATEGORIES



Payroll

- Jobs (new and retained)
- Wages (high-wage)

Capital Investment

- Buildings
- Equipment
- Technology (productivity)
- Infrastructure

Training/Workforce Readiness

- New Workers
- Transitioning Workers
- Skills Upgrades

Research and Development

- Technology Commercialization
- New Product Development

Seed Capital

- Equity Infusion
- Entrepreneurship

Growth and Success of Specific Business Segments

- Targeted Businesses
- High-Wage, Technology Start-Ups
- Minority-Owned
- Research Facilities
- Tourism Attraction
- Women-Owned
- Service-Disabled

- Economic incentives are generally classified as statutory, discretionary, or quasi-statutory.
- “Statutory” incentives provide economic benefit earned by right if a company meets certain thresholds or performs certain activities. E.g., Tax Back, Advantage Arkansas.



- Incentives that are “discretionary” can only be offered at the discretion of the AEDC Executive Director. E.g., Equity Investment Tax Credit, Create Rebate, ArkPlus, Quick Action Closing Fund.
- “Quasi-statutory” incentives are subject to some discretion, such as meeting subjective program objectives or criteria, but are awarded to companies meeting eligibility tests. E.g., In-House Research and Development, Tourism.



INCENTIVE CATEGORIES

Active Business Incentive Programs of the AEDC

Incentive Category	Tax Program	Cash Rebate	Grant/Loan/Guaranty
Sales and Use Tax Refund	Tax Back Targeted Tax Back Replacement and Repair Mfg Machinery-Discretionary Daycare Facility-1 of 2 Incentives		
Sales Tax Credit	Tourism-1 of 2 Incentives Targeted ArkPlus-Option 1 InvestArk (sunset July 1, 2017-residual costs)		
Income Tax Credit	Advantage Arkansas ArkPlus Equity Investment Tax Credit Research and Development Tax Credits Targeted ArkPlus-Option 2 Daycare Facility-1 of 2 Incentives Existing Workforce Training Program-1 of 2 Incentives Targeted Business Payroll Credit Tourism-1 of 2 Incentives Research and Development Equipment Donation Public Roads		
Premium Tax Credit	New Market Tax Credits (sunset-residual costs)		
Expenditure Rebate		Create Rebate Digital Product	
Training			Existing Workforce Training Program-1 of 2 Incentives Business and Industry Training Program
Infrastructure			Quick Action Closing Fund Amendment 82 Economic Infrastructure Funding Community Development Block Grant (Fed)
Guaranty			Industrial Revenue Bond Guaranty MBE/WBE Loan Guaranty
Technology Investment			Division of Science and Technology 15-3-101 Business and Technology Accelerator SBIR Match



INCENTIVES TIMELINE

1960s-
1970s

1980s

1990s

2000s

2010s

Act 9 Bonds	CDBG	AEDI	CIA	Replace/Repair
Bond Guaranty	ASTA (Tech Prog)	Daycare	Amendment 82	NMTC
AITP	Enterprise Zones	EWTP	QACF	ASTA Transfer
	MITC	AEDA	EITC	Accelerator/SBIR
		Tourism	Digital Product	Sunset InvestArk
		Public Roads	MBE Loan	Repeal NonProfit

- Incentive amounts are commensurate with the projected economic impact of the project to the state.
- Rigorous cost-benefit analysis
 - IMPLAN model. Standard by which many state and local economic development entities measure economic impacts of projects.
 - Comprehensive impact model that produces direct, indirect, and induced impacts of employment change as a result of the project.
 - Used by AEDC, in conjunction with a proprietary Excel spreadsheet, for almost two decades.

- Discretionary projects have a positive impact ratio (value of state tax revenues from the project exceed the value of the state incentives offered).
- Arkansas was named as 1 of 13 states “Leading the Way” in scope and quality of incentive evaluation criteria. (*PEW Center on the States, Evidence Counts, April 2012*)
- Last three years’ cumulative CBAs of all Job Creation Projects:
 - 2016 5.11
 - 2015 4.00
 - 2014 2.30

Performance Provisions

- All AEDC-administered incentive programs require recipients to meet performance standards as a condition of receiving benefits.
- Incentives under the Consolidated Incentive Act (Advantage Arkansas, InvestArk, Create Rebate, Tax Back, ArkPlus, Research and Development) are performance-based, meaning that recipients are required to meet requisite investment and/or payroll/job requirements and be audited by the Department of Finance and Administration (DFA) prior to receiving benefits.



Performance Provisions

- Other incentive programs including Tourism, Equity Investment Tax Credits, and Digital Product and Motion Picture Industry Development have submittal, review, and award processes that require proof of performance to receive benefits.
- Written agreements for loans and grants typically specify reimbursement, repayment, or recapture provisions for under performance. Typical language includes grant reimbursement amounts for each job not created and personal guaranties, collateral, etc. on loans.



- As required by Act 1769 of 2005, § 15-4-220, Arkansas Legislative Audit shall prepare annually a cost benefit analysis of the projects* provided incentives under the Consolidated Incentive Act of 2003.
- *The Act was amended by Act 1185 of 2013 to change “programs” to “projects.”
- Analyses have been performed in 2007, 2009, 2010, 2011, 2013, 2014, 2015, 2016.

- In the last four reviews (those for “projects”) Legislative Audit has reviewed 191 projects and concluded that with the exception of InvestArk, In-House Research, and some ArkPlus, overall, “projects resulted in a net positive tax benefit to the state.”
- Legislative Audit has favorably review our analysis procedures and verifies project performance with IMPLAN.
- All reports are filed annually after review by the legislature.

AEDC PROJECTS WITH AGREEMENTS

Calendar Year	Projects	Proposed Jobs	Proposed Investment
2003	54	2,807	\$566,666,646
2004	78	3,700	\$994,535,183
2005	83	3,455	\$1,116,692,303
2006	85	5,534	\$1,191,963,087
2007	104	6,636	\$1,578,635,805
2008	93	7,508	\$1,731,526,441
2009	70	6,262	\$1,010,690,808
2010	84	4,508	\$1,511,764,905
2011	83	3,013	\$917,321,675
2012	98	3,350	\$2,400,072,214
2013	105	5,131	\$1,253,310,090
2014	98	5,929	\$3,046,844,489
2015	118	4,953	\$2,233,836,467
2016	88	4,392	\$1,638,417,025
2017	125	3,225	\$3,160,141,725



AEDC BUSINESS TAX INCENTIVE PROGRAMS



Tax Back (Established in 1983 as Enterprise Zone Program, Revised 2003 Consolidated Incentive Act)

- Sales and use tax refunds* on purchase of taxable building materials, machinery, and equipment for new construction, expansion, or facility modernization.
- Must be used in conjunction with (and meet requirements of) an AEDC job creation program.
- Must invest at least \$100,000.
- Refunds shall not be authorized for items for routine operations, maintenance, or replacement.
- To receive refunds, businesses must file *Annual Sales and Use Tax Refund Request Form* with DF&A.

**Not including state taxes dedicated to the Educational Adequacy or Conservation Tax Funds.*



To qualify for **Targeted Tax Back**, businesses must:

- Have been in business for less than 5 years.
- Pay wages of at least 150% of the lesser of the state or county average wage, whichever is less.
- Have annual payroll ranging between \$100,000 and \$1 million.
- Provide evidence of an equity investment of at least \$250,000.
- Refunds shall not be authorized for items for routine operations, maintenance, or replacement.
- To receive refunds, businesses must file a *Targeted Business Tax Back Program Annual Sales and Use Tax Refund Request* annually with DF&A.

TAX BACK/TARGETED TAX BACK

- 2004-2016 Refunds Issued \$30,021,142
- Last Five-Year Average \$2,154,847
- Total Targeted Tax Back Refunds Issued \$24,711
- No Specific AEDC Appropriations

Calendar Year	Tax Back Refunds Issued	Targeted Tax Back Refunds Issued
2004	\$ 6,767	
2005	\$ 260,311	
2006	\$ 687,486	
2007	\$ 1,510,572	
2008	\$ 1,392,520	\$ 21,114
2009	\$ 1,910,895	
2010	\$ 5,756,633	\$ 3,597
2011	\$ 7,721,722	
2012	\$ 2,670,200	
2013	\$ 2,041,229	
2014	\$ 1,644,241	
2015	\$ 1,031,985	
2016	\$ 3,386,581	

Replacement and Repair Equipment Sales Tax Refund (Discretionary Option) Established 2013

- Sales and use tax refunds* on purchase of partial replacement and repair of machinery and equipment used directly in manufacturing process.
- Must hold a direct pay or limited direct pay sales and use tax permit from DFA.
- Must invest at least \$3,000,000 in major maintenance and improvement project approved by AEDC.
- Provide evidence of a positive return on taxpayer's investment.

*Not including state taxes dedicated to the Educational Adequacy or Conservation Tax Funds.



- 2014-2017 projects approved 13
- Proposed Investment \$153,150,806
- Projected Potential Refund \$8,997,610
- No Specific AEDC Appropriations

Tourism Development Act (Sales Tax Credit) Established 1997

- State sales tax credits of 15%–25% of eligible expenditures applied against the increased sales tax liability of the approved project.
- Eligible minimum project costs must be \$500,000 in high unemployment counties and \$1 million in all other counties.
- The percentage of sales tax credits shall be determined by total approved project costs:
 - Projects with expenditures of at least \$500,000 in high unemployment counties are eligible for a credit of 25% of eligible project expenditures.
 - Projects with expenditures of more than \$1 million are eligible for a credit of 15% of eligible project expenditures.
- Projects are co-approved by the AEDC Executive Director and the Director of the Arkansas Department of Parks and Tourism.

- 1998-2016 Credits Issued \$82,751,412
- 1998-2016 Credits Used \$48,870,954
- Last Five-Year Average (Used) \$3,854,182
- No Specific AEDC Appropriations

Calendar Year	Credits Issued	Credits Used
2004	\$7,722,853	\$2,214,847
2005	\$0	\$3,065,711
2006	\$9,251,023	\$3,599,489
2007	\$7,280,745	\$4,069,897
2008	\$1,588,776	\$4,153,528
2009	\$2,093,712	\$3,123,084
2010	\$1,866,827	\$3,334,370
2011	\$302,603	\$3,586,794
2012	\$127,364	\$3,759,060
2013	\$14,392,370	\$3,485,059
2014	\$2,750,580	\$4,137,078
2015	\$4,278,134	\$3,886,170
2016	\$3,563,985	\$4,003,544

Targeted ArkPlus (Sales Tax Credit) Established 2003

- Targeted Businesses paying wages that are at least 175% of the lesser of the state or county average hourly wage.
- Investing at least \$250,000; and, creating at least \$250,000 in new payroll may be awarded either income tax or sales and use tax credits,* **at the discretion of the AEDC Executive Director**, based upon the following investment parameters:

Credit Amount	Of Investment Amounts Between	
2%	\$250,000-\$500,000	Plus
4%	\$500,000-\$1,000,000	Plus
6%	\$1,000,000-\$2,000,000	Plus
8%	\$2,000,000 and above	

- This program has never been utilized.

Daycare Facility for Employees Incentives Established 1993

- Offers two incentives: refund of state sales and use taxes on new construction and equipping of a childcare facility for employees and an income tax credit of either a \$5,000 credit (one-time) or 3.9% of payroll (annually) for operations.
- No record of any benefits taken by businesses during the life of the program.

InvestArk Established 1985 as MITC; 2003 Consolidated Incentive Act

- Sales/use tax credit program for businesses established in Arkansas for at least two years that invest \$5 million or more at a single location in plant or equipment for new construction, expansion, or modernization.
- The percentage of sales tax credit was 7% of eligible expenditures.
- Unused credits may be carried forward for 5 years.
- ***The program was sunset effective July 1, 2017 by Act 465 of 2017. Existing agreements will be honored.***

- 2003-2016 Credits Issued \$490,846,891
- 2003-2016 Credits Used \$308,336,755
- Last Five-Year Average (Used) \$37,368,100
- No Specific AEDC Appropriations

Calendar Year	Credits Issued	Credits Used
2003	\$2,921,568	\$0
2004	\$15,534,318	\$1,461,655
2005	\$25,521,418	\$5,924,233
2006	\$24,316,865	\$15,730,589
2007	\$33,807,215	\$14,946,764
2008	\$41,667,960	\$19,573,234
2009	\$34,652,890	\$18,833,521
2010	\$25,134,713	\$21,456,058
2011	\$52,039,395	\$23,570,203
2012	\$53,143,767	\$31,510,769
2013	\$31,504,679	\$37,214,712
2014	\$41,998,468	\$39,997,249
2015	\$60,956,128	\$38,292,842
2016	\$47,647,507	\$39,824,926



NonProfit Incentive Act Established 2005

- Offered two benefits, at the discretion of the AEDC Executive Director, to eligible non-profit companies creating at least \$500,000 in new payroll.

Annual cash rebate of 4 percent of payroll of new, full-time permanent employees for up to 5 years.

Sales and use tax refunds for taxes paid on construction material and machinery & equipment for eligible projects that invest at least \$250,000.

- No record of any benefits taken by businesses during the life of the program.
- **Program was sunset by Act 208 of 2017.**

Advantage Arkansas Established 1983 as Enterprise Zone; 2003 Consolidated Incentive Act

- Income tax credit based upon annual payroll of new, full-time permanent employees.

Credit Amount-Percent of Payroll	Minimum Payroll Threshold	Tier Designation
1%	\$125,000	1
2%	\$100,000	2
3%	\$75,000	3
4%	\$50,000	4

- Credits accrue for 5 years.
- Unused credits may be carried forward for 9 years.
- The average hourly wage of new jobs must equal or exceed the lowest county average hourly wage as determined by AEDC based upon Arkansas DWS data (currently \$11.53).

- 2004-2016 Credits Issued \$32,493,690
- 2004-2016 Credits Used \$18,890,072
- Last Five-Year Average (Used) \$2,481,957
- No Specific AEDC Appropriations

Calendar Year	Credits Issued	Credits Used
2004	\$235,394	\$0
2005	\$901,444	\$31,853
2006	\$1,417,018	\$201,829
2007	\$2,530,428	\$366,826
2008	\$4,513,079	\$907,353
2009	\$4,057,866	\$1,063,646
2010	\$3,855,776	\$1,704,968
2011	\$4,298,983	\$2,203,810
2012	\$3,610,698	\$1,730,550
2013	\$3,266,923	\$2,160,356
2014	\$1,946,590	\$2,129,660
2015	\$1,404,676	\$2,848,812
2016	\$454,815	\$3,540,409

ArkPlus Established 1985 as AEDA; 2003 Consolidated Incentive Act

- Discretionary income tax credit of 10% of investment based on investment and payroll thresholds.
- Unused credits may be carried forward for 9 years.
- Offsets up to 50% of business income tax liability.

Tier Designation	Minimum Investment	Minimum Payroll
1	\$5,000,000	\$2,000,000
2	\$3,750,000	\$1,500,000
3	\$3,000,000	\$1,200,000
4	\$2,000,000	\$800,000

- 2004-2016 Credits Issued \$89,498,063
- 2004-2016 Credits Used \$25,730,358
- Last Five-Year Average (Used) \$4,082,661
- No Specific AEDC Appropriations

Calendar Year	Credits Issued	Credits Used
2004	\$276,910	\$0
2005	\$3,632,329	\$0
2006	\$3,996,971	\$0
2007	\$13,562,957	\$0
2008	\$16,071,694	\$547,607
2009	\$36,998,045	\$454,621
2010	\$9,859,222	\$1,268,842
2011	\$606,825	\$3,045,983
2012	\$1,126,505	\$3,345,129
2013	\$468,848	\$175,209
2014	\$291,621	\$1,990,749
2015	\$1,305,903	\$5,125,708
2016	\$1,300,233	\$9,776,510

Equity Investment Tax Credit Established 2007

- Benefit is an income tax credit to investors in eligible businesses, offered at the discretion of the AEDC Executive Director, equal to 33 and 1/3% of the approved equity (cash) amount invested.
- Targeted towards new, high-wage, technology-based business development.
- Tax credit certificates issued to investors by AEDC after concurrent review and approval of the AEDC Executive Director and ADFA.
- Credits may offset up to 50% of tax liability.
- Unused credits may be carried forward for 9 years.
- Tax credit is sellable.
- Annual equity investment credits are capped at \$6.25 million.

- 2007-2016 Credits Issued \$29,995,330
- 2007-2016 Credits Used \$20,357,571
- Last Five-Year Average (Used) \$3,159,077
- No Specific AEDC Appropriations

Calendar Year	Credits Issued	Credits Used
2007	\$300,000	\$0
2008	\$1,170,364	\$216,666
2009	\$2,386,937	\$1,050,349
2010	\$4,625,746	\$572,588
2011	\$2,910,319	\$2,722,582
2012	\$2,115,679	\$3,384,761
2013	\$2,856,212	\$2,158,372
2014	\$3,227,686	\$3,494,835
2015	\$6,242,195	\$3,531,152
2016	\$4,160,192	\$3,226,267

Research and Development Tax Credits (Various Credits from 20%-33% Depending on Type of Research)

In-House Research for Targeted Business: Income tax credit equal to 33% of qualified in-house research expenditures incurred each year for 5 years.

To qualify, businesses must:

- Be classified within one of six targeted business sectors.
- Be in operation for less than 5 years.
- Pay wages at least 150% of the lesser of the state or county average wage.
- Have annual payroll ranging between \$100,000 and \$1 million.
- Evidence equity investment of at least \$250,000.
- Credits may be carried forward 9 years.
- Tax credits are sellable upon AEDC approval.



Research and Development Tax Credits (Various Credits from 20%-33% Depending on Type of Research)

In-House Research for New and Existing Research Facilities: Income tax credit equal to 20% of the amount spent on qualified in-house research expenditures that exceeds the base year.

Agreements are for five year terms.

- Credits may offset up to 100% of tax liability.
- Unused credits may be carried forward for 9 years.
- Approved projects will receive Certificates of Tax Credits issued by AEDC.

Research and Development Tax Credits (Various Credits from 20%-33% Depending on Type of Research)

Research and Development with Universities: Income tax credit equal to 33% of the amount of qualified research expenditures conducted for the company by one or more Arkansas colleges or universities.

- Credits may offset up to 100% of tax liability.



Research and Development Tax Credits (Various Credits from 20%-33% Depending on Type of Research)

Research Area of Strategic Value: Income tax credit equal to 33% of qualified research in an area of strategic value.

- May be earned for the first 5 years following the signing of a financial incentive agreement.
- Tax credit can offset up to 100% of tax liability.
- Credits may be carried forward for 9 years.
- Maximum tax credit that may be claimed per company is \$50,000 annually.
- AEDC will determine whether or not research is of strategic value.
- Approved projects will receive Certificates of Tax Credits issued by AEDC.

Research and Development Tax Credits (Various Credits from 20%-33% Depending on Type of Research)

Incentives for Research and Development Programs Operated by AEDC: Income tax credit equal to 33% of qualified research in an area of strategic value to the state as identified by AEDC.

- Focus on early-stage, technology-based enterprises that require a continuing research and development program to remain competitive.
- May be earned for the first 5 years following the signing of a financial incentive agreement.
- Tax credit can offset up to 100% of tax liability.
- Credits may be carried forward for up to 9 years.
- Maximum tax credit that may be claimed per company is \$50,000 annually.
- Approved projects will receive Certificates of Tax Credits issued by AEDC.

- 2003-2016 Credits Issued \$54,159,069
- 2003-2016 Credits Used \$24,319,275
- Last Five-Year Average (Used) \$1,352,833
- No Specific AEDC Appropriations

	20% Company In-House		33% Targeted Business In-House	
	Credits Issued-Tax Year	Credits Used-Calendar Year	Credits Issued-Tax Year	Credits Used-Calendar Year
2003	\$20,000	\$0	\$0	\$0
2004	\$10,000	\$0	\$448,279	\$0
2005	\$10,000	\$0	\$1,574,547	\$0
2006	\$0	\$10,000	\$1,380,571	\$1,277,094
2007	\$0	\$30,000	\$1,874,668	\$1,829,922
2008	\$0	\$0	\$2,521,358	\$1,775,277
2009	\$0	\$0	\$3,012,065	\$2,062,245
2010	\$828,151	\$0	\$1,703,298	\$2,269,388
2011	\$1,704,530	\$0	\$912,898	\$1,537,022
2012	\$1,926,578	\$828,151	\$710,788	\$1,432,040
2013	\$1,080,481	\$233,763	\$972,158	\$741,810
2014	\$11,872,756	\$422,374	\$2,149,646	\$807,258
2015	\$11,371,025	\$3,097,361	\$863,412	\$1,795,610
2016	\$6,134,861	\$2,969,821	\$1,076,999	\$1,200,139

Tourism Development Act (Income Tax Credit)

Established 1997

- Income tax credit equal to 4% of payroll of new, full-time permanent employees.
- Eligible minimum project costs must be \$500,000 in high unemployment counties and \$1 million in all other counties.
- Income tax credits accrue for 5 years.
- Credits may be carried forward for 9 years.
- Projects are co-approved by the AEDC Executive Director and the Director of the Arkansas Department of Parks and Tourism.

- 1998-2016 Credits Issued \$564,387
- 1998-2016 Credits Used \$187,490
- Last Five-Year Average (Used) \$9,435
- No Specific AEDC Appropriations

Calendar Year	Credits Issued	Credits Used
2004	\$134,158	\$0
2005	\$44,477	\$6,682
2006	\$0	\$103,759
2007	\$0	\$3,698
2008	\$9,765	\$0
2009	\$13,371	\$6,918
2010	\$10,826	\$9,472
2011	\$33,010	\$9,788
2012	\$32,982	\$20,530
2013	\$4,842	\$26,643
2014	\$5,976	\$0
2015	\$5,453	\$0
2016	\$0	\$0

Targeted Business Incentive 10% Payroll Credit Established 2003

Discretionary income tax credit of 10% of new payroll of targeted business.

To be eligible, businesses must:

- Be classified within one of six targeted business sectors.
- Pay wages at least 150% of the lesser of the state or county average wage.
- Have annual payroll ranging between \$100,000 and \$1 million.
- Evidence equity investment of at least \$250,000.
- Credits may accrue for up to 5 years.
- Credits are capped at \$100,000 per year.
- Unused credits may be carried forward for 9 years.
- Tax credits are sellable, upon AEDC approval.

- 2003-2016 Credits Issued \$1,614,444
- 2003-2016 Credits Used \$1,369,214
- Last Five-Year Average (Used) \$98,285
- No Specific AEDC Appropriations

Calendar Year	Credits Issued	Credits Used
2003	\$0	\$0
2004	\$0	\$0
2005	\$106,431	\$0
2006	\$126,019	\$0
2007	\$195,527	\$106,431
2008	\$200,958	\$99,486
2009	\$212,680	\$225,527
2010	\$218,463	\$242,706
2011	\$288,459	\$203,640
2012	\$135,907	\$265,517
2013	\$110,000	\$51,744
2014	\$10,000	\$174,163
2015	\$10,000	\$0
2016	\$0	\$0

Research and Development Tax Credit Program (Sales and Donations to Educational Institutions) Established 1985

Income tax credit of 33% for donations and sales below cost of new machinery and equipment to qualified educational institutions in connection with a qualified education program or a qualified research program.

- DFA, AEDC, ADHE, ADCE, Workforce Ed have rules authority.
- DFA Issues Credit.
- 1985-2016: \$374,195 credits issued and \$294,209 credits used.
- Only \$1,269 credits used since 1999.
- However, the program has shown renewed interest of late.
- No AEDC appropriations.



Existing Workforce Training Program Established 1995

Provides training grants and income tax credits

- Customized, industry-specific training to upgrade the knowledge and skills of existing workforce to meet the demands of eligible industry.
- Reimbursable amounts based on costs of training and method of delivery; Maximum funding for any 1 company site is \$50,000 per year.
- Through 2016 AEDC, Higher Ed, Workforce Ed; DFA issues income tax credits; Currently Department of Career Education - Office of Skills Development. AEDC no longer administers the EWTP.
- Businesses and industry may apply for the discretionary matching funds, paid as post-training reimbursements. Grants are available to support the following categories: Grow Our Own, Skills Gap, Customized Technical, Professional Development.

- 2000-2016 Credits Issued \$925,576
- 2000-2016 Credits Used \$361,996
- Last Five-Year Average (Used) \$15,918
- Total Credit Cap Annually \$450,000
- No Specific AEDC Appropriations

Calendar Year	Credits Issued	Credits Used
2000	\$68,638	\$0
2001	\$134,686	\$35,641
2002	\$116,237	\$13,530
2003	\$90,619	\$6,690
2004	\$149,340	\$19,695
2005	\$136,289	\$32,991
2006	\$69,578	\$86,094
2007	\$24,368	\$49,156
2008	\$12,155	\$12,933
2009	\$4,975	\$3,400
2010	\$14,100	\$3,350
2011	\$20,626	\$18,926
2012	\$15,401	\$16,100
2013	\$24,754	\$20,265
2014	\$29,485	\$1,575
2015	\$14,325	\$27,325
2016	\$0	\$14,325



Public Roads Improvement Program Established 1999

33% income tax credits for contributions-in-aid of construction of public roads by individuals, fiduciaries, and corporations.

- Must ensure that project is fully funded prior to receiving credit.
- \$528,000 credits issued and taken (100%) for entire program.
- Only used twice by one company; last credits taken in 2008.
- No AEDC appropriations.



New Market Tax Credits Established 2013

Premium tax credits up to 58% to companies that make qualified equity investments in qualified community development entities that invest capital and equity in eligible qualified active low-income community businesses.

- Qualifiers include: business eligibility (type, size, wage); equity investment; 3rd party positive revenue impact assessment by Qualified Community Development Entity; job creation.
- \$84 million in credits have been issued for 26 different projects affecting 22 different companies.
- Credits available to be taken by calendar year: 2015 - \$17,393,096, 2016 - \$17,393,096, 2017 - \$17,393,096, 2018 - \$15,943,671, 2019 - \$15,943,671.
- It is estimated that 720 net new jobs at \$19.25 per hour will be created by the 22 companies for which investments have been made.
- **Program is no longer available to new projects- sunset.**



TAX INCENTIVE COSTS-2016

Business Incentive Programs of the AEDC-2016 Tax Cost Estimates

Incentive Category	Tax Program	Active Programs-2016 Cost	Sunset Programs-2016 Cost
Sales and Use Tax Refund	Tax Back	\$ 3,386,581	
	Targeted Tax Back	\$ -	
	Replacement and Repair Mfg Machinery-Discretionary*	\$ 2,249,403	
	Daycare Facility-1 of 2 Incentives	\$ -	
Sales Tax Credit	Tourism-1 of 2 Incentives	\$ 4,003,544	
	Targeted ArkPlus-Option 1	\$ -	
	InvestArk (sunset July 1, 2017-residual costs)		\$ 39,824,926
Income Tax Credit	Advantage Arkansas	\$ 3,540,409	
	ArkPlus	\$ 9,776,510	
	Equity Investment Tax Credit	\$ 3,226,267	
	Research and Development Tax Credits	\$ 4,169,960	
	Targeted ArkPlus-Option 2	\$ -	
	Daycare Facility-1 of 2 Incentives	\$ -	
	Existing Workforce Training Program-1 of 2 Incentives	\$ 14,325	
	Targeted Business Payroll Credit	\$ -	
	Tourism-1 of 2 Incentives	\$ -	
	Research and Development Equipment Donation	\$ -	
	Public Roads	\$ -	
Premium Tax Credit	New Market Tax Credits (sunset-residual costs)		\$ 17,393,093
Asst-Programs Which Should Have Little or No Residual Costs in Future	Biotech Development & Training (Sunset 2003)		\$ 180,312
	Capital Development Corporation (Sunset 2007)		\$ 24,827
Totals for 2016		\$ 30,366,999	\$ 57,423,158

*Estimated four year average-actual data not available





**AEDC BUSINESS NON-TAX
INCENTIVE PROGRAMS**



Create Rebate (Established in 1993 as Economic Development Incentive Act)

- Discretionary cash incentive based on annual payroll of new full-time permanent employees.
- Requires a minimum payroll of \$2 million.

Credit Amount-Percent of Payroll	Tier Designation
3.9%	1
4.25%	2
4.5%	3
5%	4

- Rebates of up to 5% may be offered by the AEDC Executive Director to companies locating in Tier 1, 2 or 3 counties under highly competitive conditions.
- Credits may accrue for up to 10 years.

Create Rebate (Established in 1993 as Economic Development Incentive Act)

Rebates of 5% of new payroll* for up to 10 years may be offered by the AEDC Executive Director to businesses meeting Targeted Business eligibility criteria. To qualify, businesses must:

- Pay wages that are at least 175% of the lesser of the state or county average hourly wage.
- Create at least \$250,000 of new payroll.

This program cannot be used concurrently with the Payroll Income Tax Credit Program for Targeted Businesses.

*** Create Rebate for Targeted Industries has never been used.**



CREATE REBATE

- 2006-2016 Payments Made \$94,024,333
- Last Five-Year Average (Payments) \$11,480,903
- AEDC Re-appropriation Act 468 of 2017 \$37.5M
- CAFR (Projected Liability) Est. \$130+ million

Calendar Year	Payments Authorized	Est. Jobs Created
2006	\$960,851	
2007	\$3,039,334	
2008	\$1,955,828	
2009	\$7,441,553	1,205
2010	\$13,346,749	1,822
2011	\$9,875,503	1,190
2012	\$14,328,603	7,717
2013	\$11,499,954	5,928
2014	\$10,015,388	5,223
2015	\$10,182,481	4,472
2016	\$11,378,089	6,110

Quick Action Closing Fund Established 2007

- For investment incentives to compete with other states to attract new business and economic development to the state or to retain existing business in the state.
- Negotiated based on needs, jobs, wages, investment. Subject to available appropriations.
- To ensure that the interest of the state's taxpayers are protected, AEDC conducts a rigorous cost benefit analysis and requires performance-based measures, including the ability to recover funds from companies that fall short of fulfilling performance measures.



Quick Action Closing Fund Established 2007

- Data through December 31, 2017 shows that 80 job creation, retention, or job creation and retention projects that have received QACF money have created and/or retained 20,138 jobs at an estimated average hourly wage of \$20.63. Overall these projects proposed the creation/retention of 25,380 jobs and over \$3.058 billion in investment - 25 times the amount of QACF expenditures.
- Governor's Releases:

Legislative Session	Amount
86 th	\$50,000,000
87 th	\$50,000,000
88 th	\$15,727,000
89 th	\$20,525,000
90 th	\$49,479,000

Quick Action Closing Fund Established 2007

- Expenditures by Calendar Year-Through March 20, 2018

Legislative Session	Amount
2008	\$6,365,325
2009	\$7,132,072
2010	\$12,229,965
2011	\$22,548,688
2012	\$10,865,680
2013	\$11,421,115
2014	\$16,435,647
2015	\$19,465,293
2016	\$11,359,065
2017	\$8,295,290
2018	\$2,520,300

Business and Industry Training Program

- Negotiated based on needs, jobs, wages, investment; typically not to exceed \$1,500 per job. Subject to available appropriations.
- Upgrade the skills of new and existing workforce to meet the demands of eligible industry.
- 2016-2017 (\$2,362,500 in signed agreements for 19 projects).
- 1,652 workers projected to be trained. Payback provisions for underperformance.
- \$1,714,800 appropriated in AEDC operations Act 230 of 2018.



Business and Industry Training Program Data

Calendar Year	Amount	Trainees
2000	\$743,158	1,722
2001	\$2,229,200	4,358
2002	\$1,513,625	4,186
2003	\$865,782	1,933
2004	\$934,712	3,704
2005	\$1,589,306	5,454
2006	\$1,390,075	4,001
2007	\$2,617,675	3,257
2008	\$2,130,902	5,631
2009	\$2,326,095	5,769
2010	\$1,839,762	3,945
2011	\$1,461,617	2,549
2012	\$1,760,090	3,701
2013	\$817,464	2,421
2014	\$1,828,119	2,236
2015	\$617,157	543

Amendment 82 General Obligation Bond Financing Established 2004

- Amendments 82, 90, and 97; Enabling legislation at 15-4-3201 et seq.
- Requires approvals of AEDC, Governor, DFA, legislature.
- No Cap, subject to legislative appropriation.
- AEDC appropriation.



Amendment 82 State General Obligation Bond Financing

- Has been used once (Big River Steel-\$50M loan and \$70M grant (\$5M issuance costs, not all of which was expended).
- 20-year bonds were issued by the state.
- Positive 3rd party economic analysis required.
- Loan repaid 17 years early.
- BRS reported the creation of 540 jobs at \$90K in last year's progress report.



- Small Business Innovation Research Match Program (\$2,000,000 annual)
- Arkansas Business and Technology Accelerator Grant Program (\$2,000,000 annual)
- Seed Capital Investment Program; Technology Development Program; Technology Transfer Assistance Grant Program (\$1,349,728 annual)
- Innovate Arkansas (\$1,500,000) and Research Alliance (\$1,400,000).
- Other programs appropriated but largely unfunded.



- Community Development Block Grants – Federal
 - Between 2007 and 2017, \$81M of all CDBG grant allocation was set aside for CDBG grants and loans to economic development projects resulting in 113 projects and 11,737 jobs
- Economic Infrastructure Funding – State.
- Industrial Revenue Bond Guaranty Program.
- Minority-Owned Business and Women-Owned Business Loan Guaranty Program.

Digital Product

- A few early projects were funded, but film funding generally comes from cash sources. \$2,316,503 (2010-2015) No costs for CY 2016.

A large aircraft fuselage section is shown in a hangar, suspended by a crane. The fuselage is covered in white protective material. Two people in white protective suits are standing near the base of the fuselage. The hangar has a high ceiling with a grid of lights. The entire image is overlaid with a semi-transparent orange filter and a white diamond-shaped frame.

QUESTIONS AND DISCUSSION



ARKANSAS
INC

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